

**DATE:** January 26, 2011  
**TO:** House Committee on Transportation  
**FROM:** William E. Hamilton  
**RE:** Transportation Funding: Revenue Sources and Distribution

### **Introduction**

Michigan residents rely on a safe efficient transportation network for many reasons: to commute to work and school, for entertainment and social connections, to access medical services. Transportation is also a critical part of the state economy. Transportation and warehousing, as a stand-alone segment of the economy, represents \$10 billion of Michigan's \$382 billion Gross Domestic Product, and accounts for 90,300 direct jobs out of total Michigan private employment of 3.2 million.<sup>1</sup> Transportation is also necessary for the success of other parts of the state economy.

The state of Michigan supports key elements of this transportation system through the annual state transportation budget. That budget provides funding for the construction and preservation of the state trunkline highway system; road and street programs of local road agencies (county road commissions, cities, and villages); capital and operating assistance to local public transit agencies; and airport capital improvement programs.

### **State Transportation Revenue and Distribution**

Appropriations in the FY 2010-11 transportation budget total \$3.2 billion. Approximately two-thirds of the appropriated revenue comes from state restricted funds, and approximately one-third from federal-aid. The budget also includes the appropriation of a relatively small amount of local revenue representing the local government share of certain highway construction projects, transit capital projects or airport improvement projects. There is no state General Fund support in the transportation budget.<sup>2</sup>

Note: There are also some public funds used for transportation programs that are not appropriated in the state budget, including toll revenue from the Mackinac Bridge and the International Bridge, certain federal transit funds received directly by urban transit agencies, county or township road millages, dedicated millages or city general fund contributions to local transit agencies. However, most of these other revenues are dedicated to local or restricted programs, not statewide transportation needs. And these local sources of transportation revenue are relatively minor in relation to state transportation appropriations.

---

<sup>1</sup> Gross Domestic Product figure from Bureau of Economic Analysis data for 2008; employment data from Michigan Labor Market Information, Michigan Department of Labor and Economic Growth, September 2010.

<sup>2</sup> The FY 2010-11 budget bill, HB 5889, was enacted as PA 192 of 2010. The budget was developed from revenue estimates made in January 2010. The state transportation budget has ranged from \$3.0 billion to \$3.4 billion during the last ten years with the relative contributions of state restricted and federal revenue approximately two-thirds and one-third, respectively, over that period.

**Considering the allocation of MTF revenue to local road agencies, local road agency access to categorical programs, the allocation of federal aid to local road agencies, and state and federal aid to public transit agencies and state airports, approximately 50% of the state transportation budget is distributed to local agencies and local programs.**

## **Revenue Issues**

### ***Short-term Revenue Issues***

State generated MTF revenue peaked in FY 2003-04 at **\$2.064 billion** and has declined each year since, primarily due to long-term declines in fuel taxes (less driving and more fuel efficient cars) and, more recently, reductions in registration taxes (people may be trading down to less expensive vehicles). The MTF revenue estimate for FY 2010-11 is **\$1.807 billion** – a reduction of \$257 million from FY 2003-04.

Reductions in MTF revenue result in reduced amounts credited to the STF, to local road agencies, and to public transportation programs.

While there has *not* been a decline in the amount federal aid available to the state, there has been recent concern about the state's ability to provide the required non-federal match – most commonly 20% of project cost. An anticipated \$84 million shortfall in state matching funds for FY 2010-11 would have caused the loss of \$475 million in federal aid.

Potential problems matching federal aid in both FY 2009-10 and FY 2010-11 were resolved. The department proposed, and the Legislature accepted, a plan to use a patchwork of one-time and short-term fixes to provide the match in both fiscal years. Some actions – such as \$40 million in short term borrowing – will make the matching problem worse in subsequent years.

If additional state matching funds are not identified, the state trunkline program may lose approximately \$500 million annually in federal aid starting in FY 2011-12. As a point of reference, the federal stimulus program provided approximately \$900 million in transportation funding to the state over two years.<sup>6</sup>

### ***Is Money the Performance Measure?***

While there is obvious concern about the long-term decline in the primary state source of dedicated transportation revenue (fuel taxes and registration taxes), and the immediate problem of matching federal revenue, the real question is whether state and federal revenues are sufficient to achieve statewide transportation goals. This brings us to more basic questions:

*What are the state's transportation goals and priorities?*

*Are there measures for evaluating the efficiency and effectiveness of state transportation expenditures in meeting those goals and priorities?*

---

<sup>6</sup> The problem in providing sufficient matching funds for federal aid programs, and the potential loss of federal aid, has been focused exclusively the state trunkline program. It is not clear to what extent local road agencies will also have trouble providing matching funds for local federal aid programs.

### **State Transportation Goals – System Improvements**

The above discussion of transportation funding issues relates only to preservation needs of current state trunkline infrastructure. It does not consider funding for other highway system goals, such as improved safety, or capacity improvement. Capacity improvement needs are somewhat harder to quantify. However, there are several major projects which the department would pursue if there were sufficient money: widening of I-75 in Oakland County, reconstruction of I-94 in Detroit, reconstruction of US-23 in Washtenaw County, completion of US-127 between St Johns and Ithaca. The I-75 and I-94 projects are estimated to cost approximately \$1 billion each.

Any attempt to raise state transportation taxes to target these capacity projects would be thwarted by the current Act 51 formula; of each additional \$1 million raised in state transportation taxes, \$650,000 is distributed to the local road agencies and public transportation programs with only \$350,000 reaching the STF.

### ***Problems in Establishing and Implementing Statewide Goals***

The problem in establishing *statewide* transportation goals, directing state resources towards achieving those goals, and measuring performance in relation to those goals, is the fragmentary nature of the state transportation system and the current formula-driven method of distributing revenue.

There is not a single state transportation system; there are in fact 617 separate road jurisdictions in the state – 83 county road commissions, 533 cities and villages, and the Michigan Department of Transportation – not to mention 79 local public transit systems.

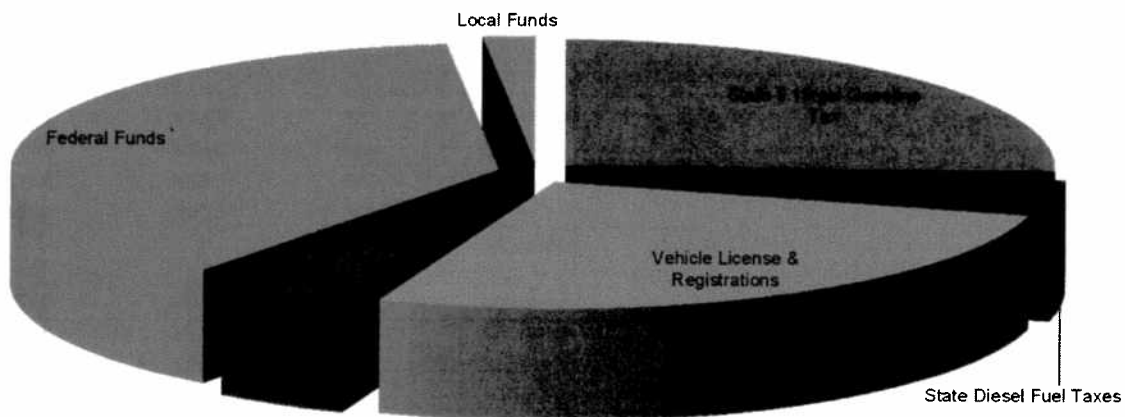
As described above, state transportation revenue is distributed or allocated to road agencies by statutory formula, or allocated to statutory categorical programs (TEDF, rail grade crossings, Local Bridge Program). In many cases funds allocated to a categorical program are further suballocated by population or jurisdiction.

This fragmentation of the state transportation network, and the related formula-driven distribution of funds, may promote inefficiencies. Furthermore, the current formula-driven distribution of transportation funds does not appear to support *statewide* transportation goals.

# Transportation Budget - FY 2010-11

## Sources of Transportation Revenue

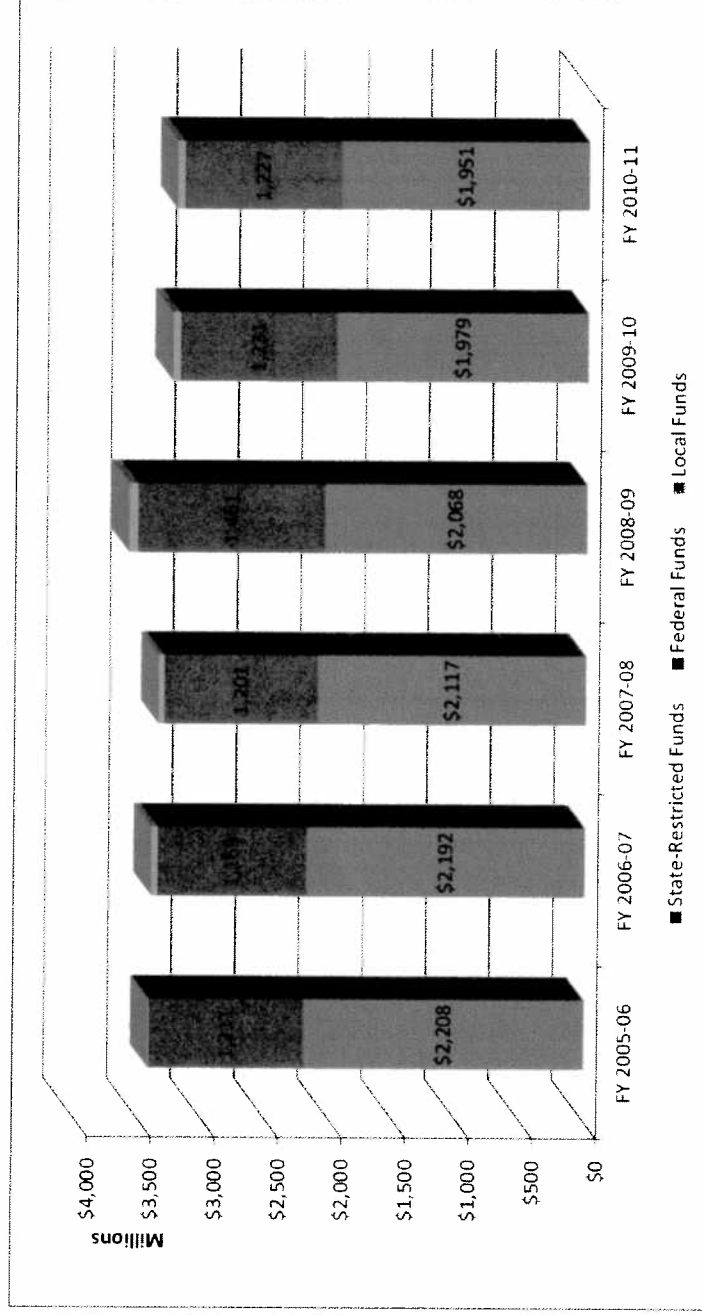
		% of Total Rev.
State \$.19/gal Gasoline Tax	\$826,000,000	
State Diesel Fuel Taxes	115,000,000	
Vehicle License & Registrations	864,500,000	
Other	145,474,400	
Subtotal State Revenue	<b>\$1,950,974,400</b>	60.31%
Federal Funds	1,227,470,600	37.94%
Local Funds	56,496,000	1.75%
<b>Total Appropriated Funds</b>	<b>\$3,234,941,000</b>	100.00%



# Transportation Budget

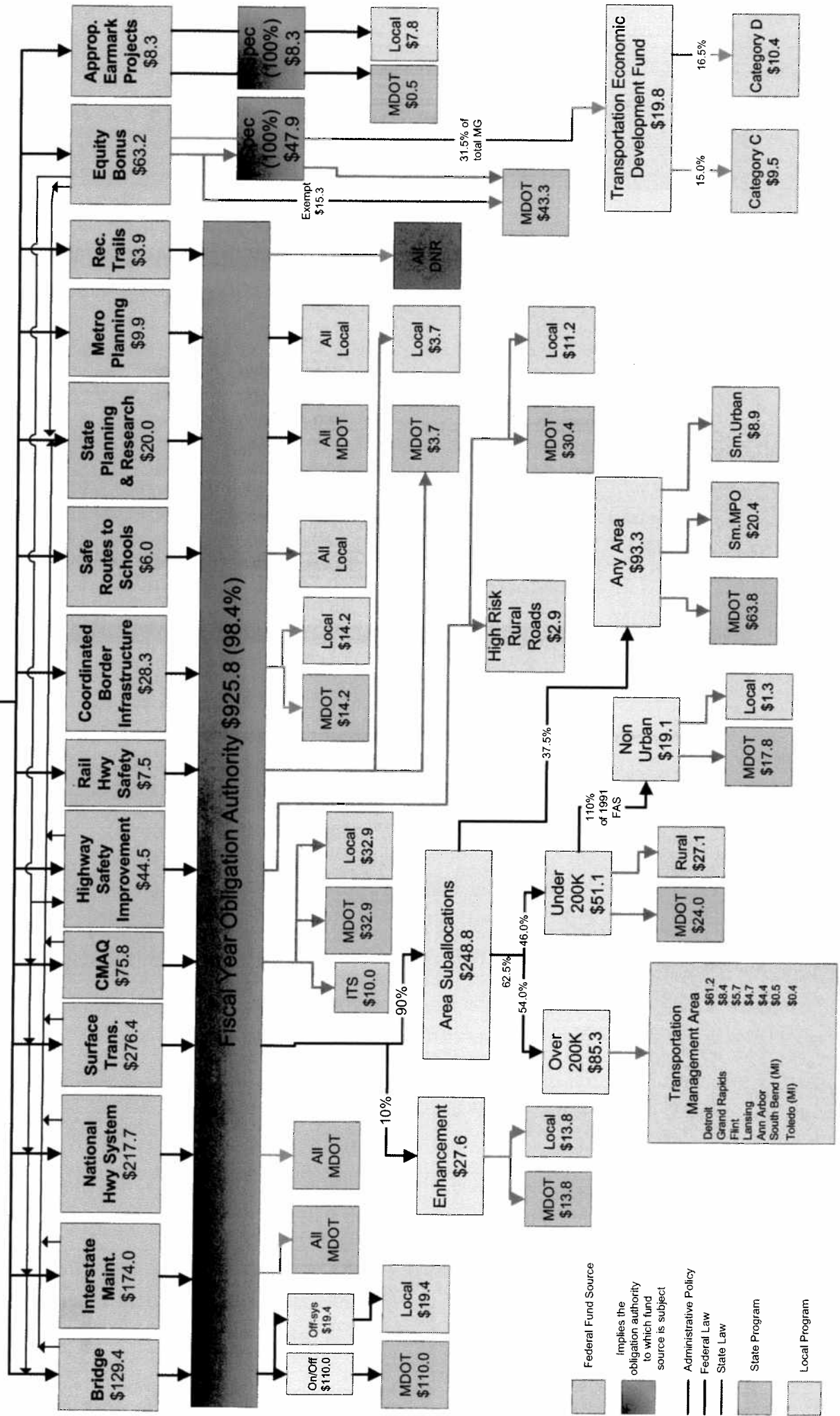
FY 2005-06 through 2010-11

	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
State-Restricted Funds	\$2,208,159,900	\$2,192,012,700	\$2,116,605,000	\$2,068,009,200	\$1,978,578,800	\$1,950,974,400
Federal Funds	1,210,650,300	1,168,679,700	1,200,740,600	1,460,995,800	1,230,744,500	1,227,470,600
Local Funds	6,100,000	47,500,000	42,850,000	71,624,200	56,453,400	56,496,000
<b>Adjusted Gross Appropriation</b>	<b>\$3,424,910,200</b>	<b>\$3,408,192,400</b>	<b>\$3,360,195,600</b>	<b>\$3,600,629,200</b>	<b>\$3,265,776,700</b>	<b>\$3,234,941,000</b>



(Excluding ARRA)

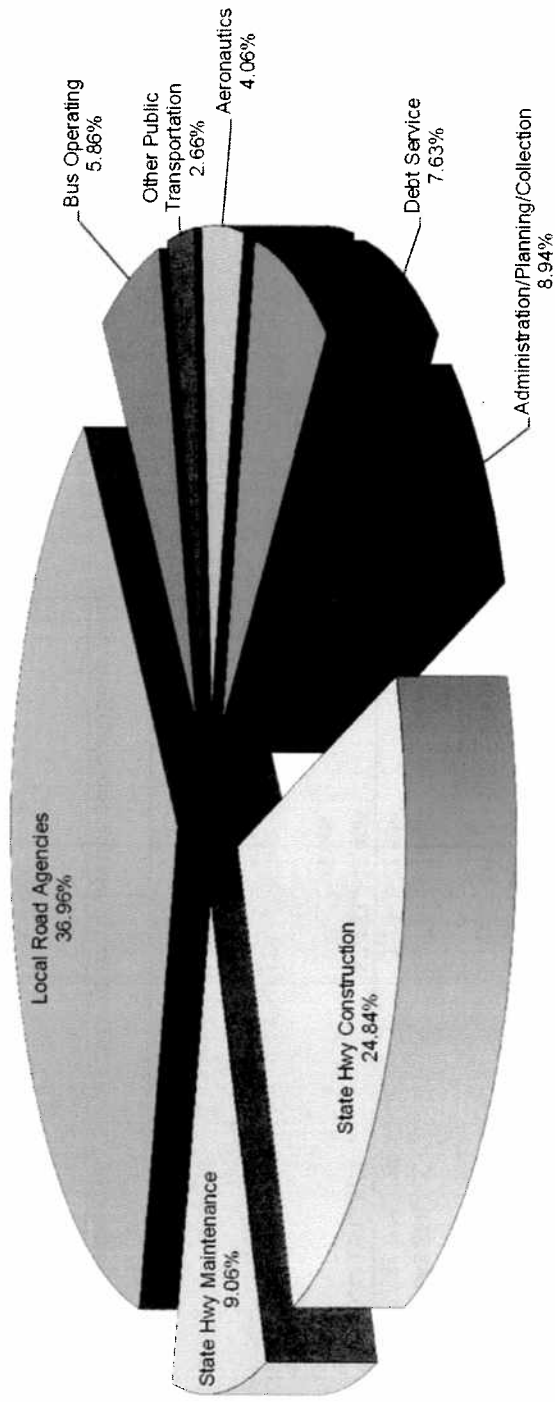
**Total\* \$1064.9 Million**



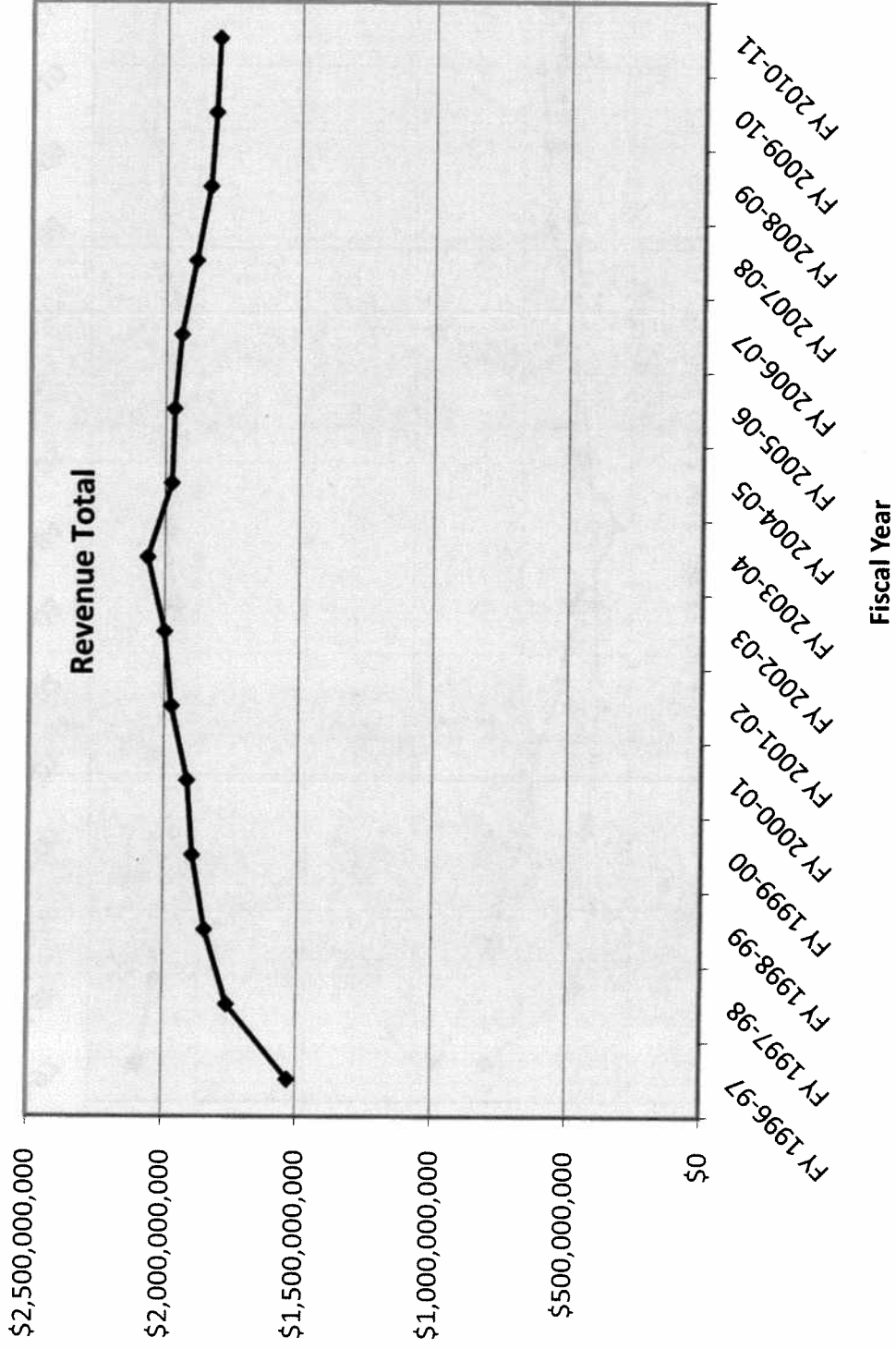
9

# Transportation Budget - FY 2010-11

As enacted  
Summary of Appropriation by Program



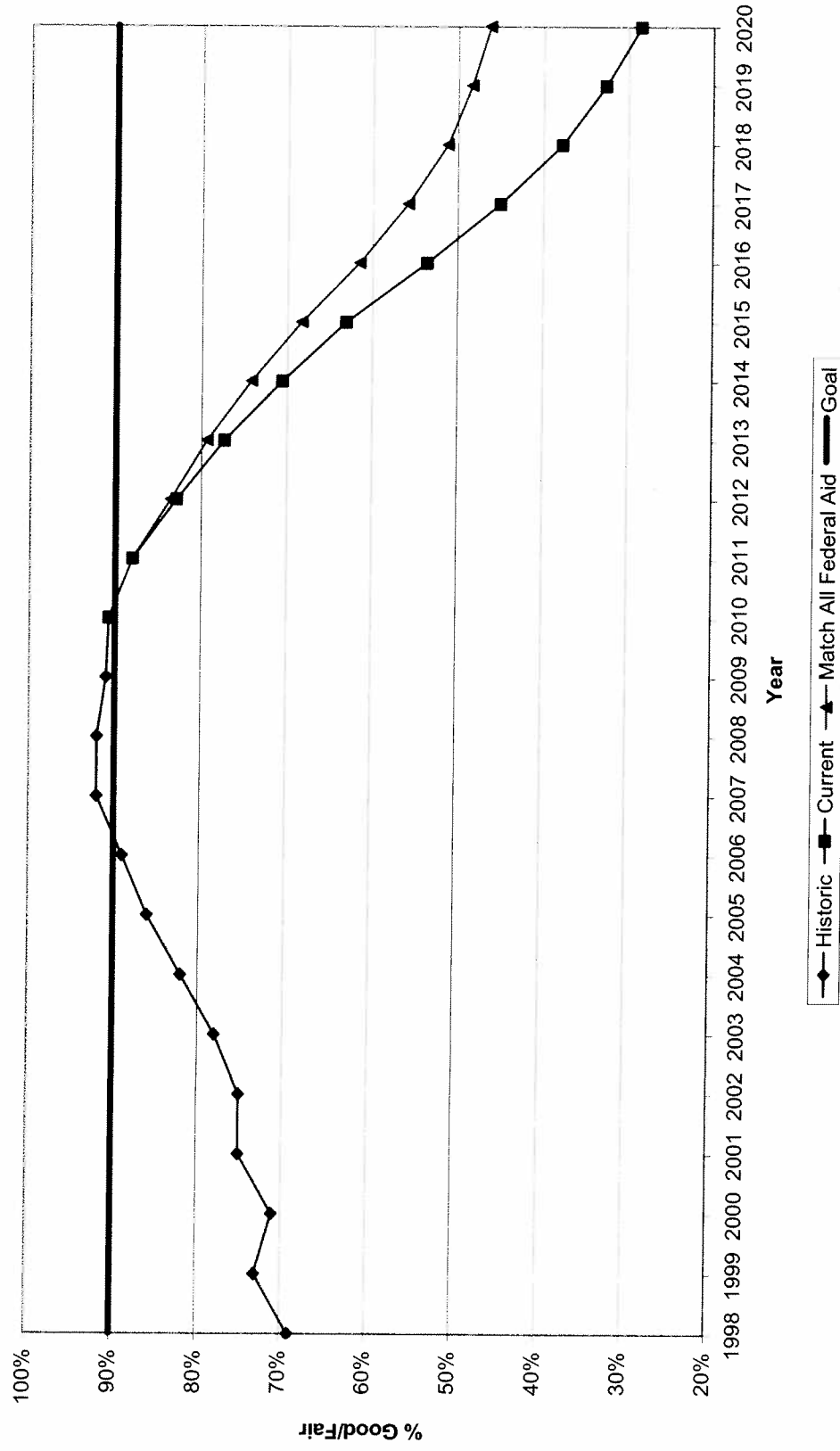
## MTF Revenue History





# Preserving the Highway System How Long Will the Pavement Last?

Historic and Projected RSL Pavement Condition  
Current Strategy vs Match All Federal Aid Strategy



Source: Michigan Department of Transportation